Home-country Government Support, Interstate Relations and the Subsidiary Performance of Emerging Market Multinational Enterprises

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DOI:
10.1016/j.jbusres.2018.04.021

Document Version
Peer reviewed version

Citation for published version (Harvard):
Han, X, Liu, X, Xia, T & Gao, L 2018, 'Home-country Government Support, Interstate Relations and the Subsidiary Performance of Emerging Market Multinational Enterprises', *Journal of Business Research*. https://doi.org/10.1016/j.jbusres.2018.04.021

Home-country government support, interstate relations and the subsidiary performance of emerging market multinational enterprises

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Abstract

Drawing on the institution-based view and the global political economy perspective, this study examines the role of home-country government support and interstate relations in the overseas subsidiary performance of Chinese multinational enterprises (MNEs). We focus on two aspects of home-country government support: financial support and non-financial policy support, as well as their effects under the contingency of interstate relations. Using survey data, we find that Chinese MNEs' subsidiary performance is positively related to the degree of home-country government non-financial policy support, but not financial support. The impact of non-financial policy support is contingent on interstate political and economic relations. Stronger interstate political relations complement the impact of non-financial policy support on subsidiary performance, whereas interstate economic relations have a substitutive effect.

Keywords

Emerging market MNEs; subsidiary performance; interstate relations; global political economy; institutional embeddedness; China

Funding: This research was supported by a research grant from the National Natural Science Foundation of China (NSFC: 71572150).

Home-country government support, interstate relations and the subsidiary performance of emerging market multinational enterprises

1. Introduction

The growing importance of emerging economies in the world economy accompanied by the surge of outward foreign direct investment (OFDI) by emerging market multinational enterprises (EMNEs) has drawn widespread academic attention (Demirbag and Yaprak, 2015; Keohane and Underdal, 2011). One stream of existing research has focused on the role of home-country institutions, such as governments, in motivating and regulating EMNEs (Luo et al., 2010). Findings of existing studies show that home-country government support compensates for EMNEs' lack of international experience and ownership disadvantages, and helps explain the puzzle concerning why these new contenders have rapidly internationalized in a short period of time (Lu et al., 2014). While extant research has enhanced our understanding of whether home-country government support influences motivation and entry mode selections of OFDI by EMNEs, little attention has been paid to whether such support can be translated into post-entry performance (Hoskisson et al., 2013). This omission limits our understanding of the role of the home-country government as a source of competitive advantage through EMNEs' institutional embeddedness at home and abroad.

Moreover, extant research based on the institutional perspective has assumed that the impact of institutional forces on MNEs' operations is confined within national borders, thus providing few insights into the institutional impact associated with the broader international political and economic relations (Demirbag et al., 2010). As countries are embedded in the international context, home-government policies shaping firms' activities abroad are subject to the approval of host-country governments (Cuervo-Cazurra, 2011). This implies that the effect of home-country government support on EMNEs' overseas performance may vary, depending on the level of interaction and the strength of interstate relations between a firm's home government and the host country (Lattemann et al., 2017). In this study, we define interstate relations as the alignment and coordination of national interests in global affairs between a firm's home-country and the host-

country government (Dai et al., 2013; Jandhyala and Weiner, 2014), including interstate political relations and economic relations.

Drawing on insights from the global political economy (GPE) perspective, we consider interstate relations as boundary conditions of EMNEs' post-entry performance. GPE scholars emphasise the role of a set of commonly accepted rules and norms by a group of countries in governing their relationships with each other (Claes and Knutsen, 2011). While the principles and rules underpinning interstate relations may not have any binding or legally enforceable power, they help to promote information flow and reduce uncertainty, as well as facilitating cooperation at interstate level, and hence enabling countries to pursue national objectives through engaging in cross-border economic exchanges (Keohane and Underdal, 2011).

Both the institutional and the GPE perspectives highlight the impact of rules and norms on cross-border economic exchanges. The latter embraces the importance of institutional forces operating at transnational level in shaping firms' international operations. It is crucial to take account of both home-country government support and interstate relations to understand the implications of broad institutional embeddedness for EMNEs' international success (Child and Marinova, 2014).

China is chosen as our research setting as Chinese firms have recently expanded their operations globally. A total of 24,400 Chinese firms had set up operations in 190 countries by 2016 (MOFCOM, 2017). The rise of Chinese MNEs and the role played by their home-country government in terms of offering support to firms' overseas activities, and engaging in interstate cooperation, present an important opportunity to advance our knowledge of the relationship between home-country government support, interstate linkages and EMNEs' post-entry performance.

This study makes three main contributions to the literature on EMNEs. First, instead of assuming the immobility of contextual forces and only examining the impact of home-country government policy on business operations within national borders, we look at whether such

institutional forces travel abroad with firms and exert extra-territorial influence on their overseas performance. The home-country government often provides information and diplomatic assistance, in addition to resource access, when firms operate internationally (Luo et al., 2010), We expand extant literature on the generic proposition about home-country government support by distinguishing between the impact of two critical aspects of home-government support on EMNEs' post-entry performance, namely financial and non-financial policy measures.

Second, we extend the existing research which builds upon the institution-based view by incorporating insights from the GPE perspective. While the effect of both home and host-country institutional forces on EMNEs' international expansion has been documented (Lu et al., 2014), research has tended to neglect the fact that countries are embedded in the wider context of interstate relations (Demirbag et al., 2010). By juxtaposing the institution-based view with insights from the GPE perspective, we examine the broader impact of institutional forces beyond national borders by capturing the importance of interstate cooperation in facilitating cross-border economic activities at transnational level. In doing so, this research expands the theoretical boundaries of the institutional perspective to interstate contexts, thus broadening our understanding of institutional contextual forces beyond the national boundary.

Third, our research responds to the call by international business scholars to broaden the impact of political and economic factors beyond traditional institutional forces on MNEs' performance (Doh et al., 2012; Mellahi et al., 2016). We systematically examine two types of interstate relational factors: political relations and economic relations between a firm's home and host countries, to capture their heterogeneous effects on EMNEs' post-entry performance. Home-country government support interacts with interstate contextual forces in different ways so that these institutional forces can either reinforce or substitute for home-country government support to boost EMNEs' post-entry performance. Hence, examining interstate political and economic relations helps to provide a more complete account of the interplay of institutional forces at domestic and interstate levels in shaping EMNEs' post-entry performance.

2. Theoretical background and hypotheses

Institutions have been defined as a set of external isomorphic pressures that lay down legitimate norms with respect to how things should be conducted in a given organizational field (DiMaggio and Powell, 1983; Meyer and Peng, 2016). As firms are embedded in the institutional context, conformity to institutional prescriptions of appropriate conduct helps them to gain legitimacy from powerful institutional constituents (Baum and Oliver, 1992). Institutional embeddedness refers to the interconnections or institutional linkages between firms and key institutions in the environment in which they operate (Oliver, 1997). Such embeddedness increases firms' likelihood of success by facilitating resource access and acting as a buffer to protect them from environmental uncertainty (Hung, 2005). EMNEs are embedded in the institutional contexts of both home and host countries. Home-country embeddedness implies that EMNEs can obtain support from their home-country government when their strategy is aligned with their government. This is the case for Chinese MNEs, given that the Chinese government has adopted the 'going global' strategy as a strategic pathway for economic development at country level, and has implemented policies, including both financial and non-financial support, aimed at promoting Chinese firms' international expansion (Lu et al., 2014). Thus, home-country government support can represent an enabler which enhances the international competitiveness of its MNEs.

As emerging economies have become increasingly integrated with the global market, the governments of these countries have realized that supporting their firms to become world-class MNEs can project their influence beyond national boundaries (Child and Marinova, 2014). Thus, they become a powerful ally of EMNEs by not only offering direct support, but also indirect support, including the negotiation of interstate treaties with host-country governments to further enhance their firms' competitiveness when operating in host countries (Hoskisson et al., 2013). However, the impact of government support channeled through interstate relations, has received little attention due to the assumption that institutional forces tend to be internationally immobile (Meyer et al., 2011). This overlooks the fact that countries are embedded in a broad international

context. The relationship between an EMNE's home country and a host country may either enhance or constrain the effectiveness of home-country government support in an EMNE's post-entry operations through institutional embeddedness in host countries. (Lattemann et al., 2017). Thus, it is important to unpack the role of home-government support in EMNEs' international success by bringing in the GPE perspective in order to consider the impact of interstate relations on cross-border business operations (Frieden and Martin, 2002).

The GPE perspective concerns the interaction of economic and political phenomena across national borders and proposes that states are self-interested actors that will engage in cooperation with each other if there are sufficient shared interests (Keohane, 1984; O'Brien and Williams, 2013). Cooperation among states is based on a mutual desire to increase the efficiency of cross-border economic exchanges, which are facilitated through a process of policy coordination where countries adjust their policies so that adverse consequences of decisions to their counterparts are reduced (Keohane and Underdal, 2011). Therefore, the impact of one government's policies is no longer limited by its national borders but can trigger reactions from other countries which will consequently influence MNEs' operations in those countries (Ravenhill, 2008).

GPE scholars propose that a set of rules, norms, and decision-making procedures which have been accepted by a group of countries as regulating their relationship may serve as a mechanism to facilitate economic cooperation between countries (Keohane and Underdal, 2011; Ruggie, 1975). These rules and norms can provide the basic institutional infrastructure that governs trans-boundary economic activities (Keohane, 2012). As countries are increasingly embedded in world political and economic systems, adherence to commonly accepted rules and practices in the international arena not only helps them to gain opportunities to cooperate with one another, but also affects domestic policymaking, and are useful institutional devices for governments that wish to pursue complementary interests at interstate level (Claes and Knutsen, 2011). The presence of international relations not only helps to promote communications at intergovernmental level, but also reduces the transaction cost in economic exchanges when engaging in interstate cooperation

(Jandhyala and Weiner, 2014). By integrating institutional embeddedness with the GPE perspective, our study expands existing research focusing on within-country institutions by suggesting that interstate relations may interact with domestic institutional forces in affecting EMNEs' post-entry performance.

2.1 Home-country government support

From the institutional perspective, a government as the primary actor in the institutional environment plays an important role in shaping economic exchanges through policy instruments (Lu et al., 2014). As governments in emerging economies are supportive of OFDI, embeddedness in the institutional context of the home country and alignment with the government's strategy enables EMNEs to gain home-country government support, including subsidies and favorable legislative changes that are important to firms' overseas success (Meyer et al., 2011). Due to under-developed market mechanisms, the influence of the home-government policies of emerging economies tends to be stronger in affecting their firms' international operations than that of developed countries (Hong et al., 2015). In this study, we investigate both financial and non-financial policies to unpack the effect of home-country government support on EMNEs' overseas performance.

2.1.1 Home-country government financial support

EMNEs are deemed to have weak ownership advantages in their internationalization process (Luo and Tung, 2007), which leads to difficulties in securing financial access in host countries (Yiu et al., 2007). However, home-country government support can compensate for EMNEs' competitive disadvantages so that they can better compete against their counterparts in two main ways (Lu et al., 2014). First, direct financial support from the home-country government provides a valuable resource which can help EMNEs overcome financial constraints when venturing abroad (Luo et al., 2010). Such support can enable EMNEs to access state funds at below market rates when engaging in international operations (Buckley et al., 2007). Credit support offered by policy banks, for example the Export-Import Bank of China, can provide greater financial security for Chinese MNEs' global expansion and help them reach global customers and develop distribution networks, thus

contributing to growing their market share in the international market (The Economist, 2013). Moreover, the provision of financial resources may enable Chinese MNEs to employ host-country skilled personnel and gain access to advanced technologies that complement firms' existing resources. The combined and enlarged resource base helps Chinese MNEs build their competitive advantages and enables them to better serve customers in overseas markets, which can boost their overseas performance.

In addition to cheap capital provided by state banks, relaxed control on the financial markets by the home-country government in relation to payback terms may satisfy firms' need for easier capital access (Hoskisson et al., 2013). The liberalization of home-country financial markets may give EMNEs confidence when devoting resources to developing new products that help to generate a higher sales margin abroad. A longer payback period alleviates firms' financial stress and offers greater financial flexibility, thus enabling them to integrate strategic assets acquired abroad with firms' existing assets to create a new source of competitive advantage (Commercial Bank M&A Loan Risk Management Guidelines, 2015).

Hypothesis 1a: Chinese MNEs' overseas subsidiary performance is positively related to the level of home-country government financial support.

2.1.2 Home-country government non-financial policy support

Home-country governments not only provide financial support, but also non-financial support. The non-financial policy support of a home-country government refers to schemes aimed at streamlining the administrative process, the provision of information and the protection of firms' overseas rights. Policy support in non-financial forms not only helps firms to reduce operational costs, but also serves as a competence-enhancing device to augment EMNEs' international competitiveness (Peng, 2012). There are three main channels through which home-government non-financial policy support may affect EMNEs' post-entry performance.

First, a supportive home-government policy helps firms cut operational costs and improve efficiency as the streamlining of administrative procedures reduces the bureaucracy involved in

business activities (Luo et al., 2010). With a more efficient administrative environment, EMNEs are able to respond to foreign market opportunities in a swifter manner. This helps EMNEs compete more effectively abroad. For instance, China's 'go-global' strategy has prompted the government to provide a 'one-stop' service to review firms' OFDI projects. Investments under $1billion no longer need to be approved, although the home government needs to be notified (MOFCOM, 2014). This enables Chinese companies to reduce the costs of dealing with multiple state authorities, and dedicate resources to research and development in order to introduce tailored products to the local market, thus contributing to increasing market share abroad.

Second, policy support offered by the home-country government plays a key role in helping firms to enhance their knowledge base, which can help overcome constraints due to their lack of experience as latecomers (Lu et al., 2011). A critical barrier that hinders EMNEs' global success is related to their lack of knowledge about foreign markets. By offering effective information support regarding a host country's market climate, the home-country government enables its firms to adopt appropriate marketing strategies. Guidelines published by the home-country government help EMNEs to develop a better understanding of host-country consumers' demands which enables EMNEs to overcome the liability of foreignness.

Finally, a home-country government's policy support may enhance EMNEs' post-entry performance by providing risk-safeguard mechanisms to shield firms from complex host environments and facilitate communications between MNEs and host-country stakeholders. The presence of home-government agencies abroad can offer two types of support at the post-entry stage. First, diplomatic support safeguards cross-border business operations in the face of increasing international political risks. The Chinese government has helped Chinese firms to develop risk control systems for overseas subsidiaries through its personnel training programs and enhanced consular support (Luo et al., 2010). These provide effective protection to Chinese MNEs' assets and personnel abroad, and reduce operational costs. Second, home-government agencies abroad can boost EMNEs' competitiveness by acting as a bridge to link firms with host-country government

and business communities so that firms can become better embedded in host markets and work with reliable local partners to pursue success. For example, an important mission of the Chinese commercial consulates abroad is to help firms communicate with host-country governments and business networks (Foreign Affairs, 2016). This can help Chinese MNEs adapt their operational standards to meet host-country government requirements and collaborate with local suppliers and distributors to develop new products and pre-empt the market.

Hypothesis 1b: Chinese MNEs' overseas subsidiary performance is positively related to the level of home-country government non-financial policy support.

2.2 The moderating role of interstate relations

Cross-border operations imply that MNEs are embedded in multiple institutional environments (Demirbag et al., 2010). Differences in institutional pressures between home and host countries make embeddedness challenging as it increases the transaction cost of monitoring and coordinating in foreign markets (Buckley and Munjal, 2017). We suggest that strong interstate relations between firms' home and host countries enable national governments to coordinate policies, hence moderating the impact of home-country government support on EMNEs' post-entry performance. This study considers two mechanisms at the interstate level. The first is interstate political relations, which is the degree of foreign policy alignment between a firm's home government and host governments (Dai et al., 2013). The second is interstate economic relations, such as investment agreements reached at intergovernmental level (Jandhyala and Weiner, 2014). Political and economic issues constitute the most important components of interstate relations, which is the main reason why we focus on these two mechanisms (Desbordes and Vicard, 2009).

2.2.1 Interstate political relations

EMNEs are subject to the jurisdictions of both home and host governments. These not only regulate domestic policies, but also manage interstate political relations, which in turn affect cross-border economic activities (O'Brien and Williams, 2013). The political frameworks at domestic and international levels are intertwined and jointly impact on business operations (Keohane, 2005).

Hence, interstate political relations between home and host countries may act as an institutional device to reinforce the effectiveness of home-country government support on EMNEs' post-entry performance.

Interstate political relations and home-government financial support

Governments with favorable political relations tend to work in a co-operative manner in economic affairs as shared foreign policy positions promote trust and information symmetry at interstate level (Flores-Macías and Kreps, 2013). With stronger interstate political relations, countries are more likely to engage in discussions in the financial policy domain that helps to establish a network for government officials, such as finance ministers, with regular patterns of interaction (Keohane, 1984). This enables the home-country government to communicate with the host-country government more effectively in relation to the financial support packages that it offers to firms, thus enhancing acceptance of such support by the host country (Ikenberry and Lim, 2017). Chinese MNEs often carry the identity of their home-country government in the eyes of host countries, especially when they receive financial support from the government (Cui and Jiang, 2012). This has raised national security concerns in some countries as they suspect that Chinese MNEs come with a political agenda (Globerman and Shapiro, 2009). However, countries with good political relations with China may have established trust through past interactions (Gao et al., 2015). This helps to alleviate concerns over national security (Li and Vashchilko, 2010) regarding Chinese MNEs receiving support from their home-country government. As a result, such support may be seen in a positive light and reach its full potential in helping EMNEs acquire strategic assets in the host countries, thus avoiding disruption.

With the presence of close interstate political relations, the policies followed by one government may be viewed by the other as conducive to the realization of its own interests (Keohane, 1984). Hence, the host government may be more willing to cooperate by introducing incentives to accommodate firms' home-government financial support. Good interstate political relations may prompt the host government to adopt a MNE's home-country currency as method of

payment, which helps to reduce transaction costs in cross-border operations. Host-country governments with favorable political relations with China may be willing to cooperate with the Chinese government in monetary issues such as the internationalization of the RMB (Financial Times, 2015). Chinese MNEs can benefit from such cooperation as it lowers the cost associated with exchange rate fluctuations if the RMB is accepted as the trading currency, and this can further boost the positive effect of home-country government financial support on firms' post-entry performance.

Hypothesis 2a: The positive relationship between home-government financial support and Chinese MNEs' overseas performance is stronger when there are stronger political relations between China and the host country.

Interstate political relations and home-government non-financial policy support

With stronger interstate political relations, countries are likely to adjust their behaviour to expedite intergovernmental coordination among subunits of government (Keohane, 2005). This facilitates home-country government interaction and communication with the host government, which enables the home-country government agencies to gather up-to-date information regarding host markets (Ikenberry and Lim, 2017). This knowledge can then be passed on to EMNEs investing in these countries, thus helping them better understand local markets. Close interstate political relations may motivate the host-country government to provide updated information, thus complementing home-country government policy support and further enhancing the effectiveness of home-country government policy support on EMNEs' post-entry performance.

In addition, when there is a greater degree of foreign policy alignment between countries, it promotes more institutionalized commitments at intergovernmental level (Li and Vashchilko, 2010), which enhance the effectiveness of the risk-safeguard mechanism provided by the home-country government. The host-country government may pay greater attention to the issues brought by the home-country government agencies as it may help to enhance political co-operation. Previous research posited that the co-operative interplay between firms' home and host-country governments

in the international political system can provide useful leverage to protect cross-border operations (Cuervo-Cazurra, 2011). Thus, favorable political relations may serve as a risk-buffering mechanism (Doh et al., 2012) which enables local Chinese embassies to negotiate with the host-country government more effectively for the protection of Chinese MNEs' overseas assets and personnel safety.

Hypothesis 2b: The positive relationship between home-government non-financial policy support and Chinese MNEs' overseas performance is stronger when there are stronger political relations between China and the host country.

2.2.2 Interstate economic relations

International economic exchanges are characterized by common and conflicting interests on multiple economic issues, where countries may worry about being exploited (Keohane, 1984). As international institutions, such as the World Trade Organization, tend to be hampered by the difficulty of reaching deals and monitoring state behaviors at multilateral level, governments also negotiate economic agreements at interstate level that allow them to identify common interests and compromise on an acceptable scale (Jandhyala and Weiner, 2014).

The most prevalent interstate economic treaties are bilateral investment treaties (BITs) and double taxation treaties (DTTs) (Sauvant and Sachs, 2009). BITs are signed between pairs of countries to protect bilateral investments (Ginsburg, 2005). Similarly, DTTs are used to harmonize the calculation methods and definitions on tax subjects, and mitigate the uncertainty faced by investors in foreign fiscal systems (Barthel et al., 2010). As a specific institutional link between the home and host countries, interstate economic treaties may enhance EMNEs' performance through defining legal rights, reducing uncertainty, and providing reliable information (Zong et al., 2012), thus reinforcing the positive impact of home-country government financial and non-financial support.

Interstate economic relations and home-government financial support

In order to promote OFDI, emerging economy governments have actively signed BITs and DTTs with other countries. BITs typically include a 'national treatment' clause that entitles foreign firms

from signatory countries to be treated equally in comparison with domestic firms (Jandhyala and Weiner, 2014). Such a clause creates institutional conditions through which EMNEs are better able to be embedded in the local context, thus reducing the liability of foreignness. It confers EMNEs with the legal rights of participating in the host-country's financial market and receiving financial support from host-country FDI promoting agencies, which reduce the costs of accessing overseas assets by Chinese MNEs. As financial support offered by the Chinese government can come with performance requirements (Luo et al., 2010), gaining access to the host-country financial market serves as an alternative source of financial resources and alleviates firms' reliance on home-country government financial support.

DTTs provide MNEs with the immediate benefit of cost saving. Standardisation of tax between treaty partners reduces the burden of paying tax to both their home and host countries (Blonigen and Davies, 2004). Compared with financial support from the home-country government, DTTs may be a better received option as some host governments consider subsidies provided by the home-country government a source of unfair competition (Globerman and Shapiro, 2009). In this regard, BITs and DTTs facilitate economic exchanges between EMNEs and host-country firms, thus enhancing the local embeddedness of EMNEs. As a result, BITs and DTTs may act as substitutes for home-country government support for EMNEs' post-entry performance.

Hypothesis 3a: The positive relationship between home-government financial support and Chinese MNEs' overseas performance is weaker when there are stronger economic relations between China and the host country.

Interstate economic relations and home-government non-financial policy support

Interstate economic agreements provide effective protection for firms with regard to dispute settlement and double taxation avoidance, which reduces uncertainty facing EMNEs when operating in the host country (Sauvant and Sachs, 2009). As most treaties have specific clauses to govern disputes between investors and the host-country government, they have enabled firms to seek arbitration without the need to involve the home-country government in the process (Jandhyala and Weiner, 2014). The adoption of an arbitrational approach under economic treaties may reduce

the need for diplomatic support from local Chinese embassies, thus easing political scepticism. As a result, the risk-safeguard mechanism provided by home-government support can be replaced by well-defined bilateral economic treaties for Chinese firms' overseas performance.

Additionally, the enforcement of interstate economic treaties can be an alternative channel for firms to obtain detailed and country-specific information, which can reduce their reliance on information provided by the home government. A typical BIT provides information regarding MNEs' entitlement to national treatment, and compensational mechanisms in the event of nationalization (Sauvant and Sachs, 2009). Similarly, the implementation of DTTs between countries inform firms on tax issues including tax relief on specific projects and dispute settlement procedures between firms and host-country tax bureaus. Hence, the presence of interstate economic treaties may provide more specific information regarding the host-country's investment and taxation policies than the general guidance from EMNEs' home-country government.

Hypothesis 3b: The positive relationship between home-government non-financial policy support and Chinese MNEs' overseas performance is weaker when there are stronger economic relations between China and the host country.

3. Sample and data

We tested our hypotheses using survey data on Chinese enterprises' OFDI collected by the China Council for the Promotion of International Trade (CCPIT) in 2011. The sample contained firms from 16 provinces and municipalities across China.[1] Due to cost and administrative constraints, we approached 2,000 firms that were the CCPIT's membership enterprises and also appeared on the MOFCOM's registration list for their OFDI activities. The target respondents were in charge of firms' international strategy and investment activities. A practitioner-based report was offered as an incentive to encourage participation. After the original mailing, and one follow-up reminder, we received a total of 365 questionnaires. Responses that were either incomplete or inapplicable were eliminated. This provided us with 183 observations. To examine the relevance of interstate political

and economic relations, we excluded OFDI flowing to regions that are not members of the General Assembly of the United Nations (UNGA). Our final sample consists of 148 observations.

In relation to regional and industrial distributions, our sample firms covered 51 host countries and three industrial divisions including the agriculture industry, the mainstream industries and the service industry based on the International Standard Industrial Classification (ISIC), revision 3. Table 1 presents a breakdown of our sample by region and industry with weightings relative to the sample size in comparison to the population. The regional and industrial distributions of the sample firms are consistent with those of the original population.

Insert Table 1 here

3.1 Measurements

Overseas subsidiary performance. The dependent variable is the overseas subsidiary performance of a Chinese firm. Objective financial data are not easily accessible in emerging markets, and thus the use of perceptual data becomes appropriate. This measure helps us understand the values and priorities that corporate executives place on specific objectives (Hult et al., 2008). The construct was operationalised by asking the respondents to indicate their satisfaction with their firm's most recently established overseas branches on a 7-point likert scale (1 = very dissatisfied, 7 = very satisfied) regarding three items: (i) sales growth, (ii) local market share growth, and (iii) sales margin growth.

Home-country government financial support. Home-country government financial support was measured by the actual level of support the sample firms received from home-country governments in terms of financial and capital access in their overseas investment (1= very low support, 7= very high support).

Home-country government policy support. Home-country government policy support was operationalised by asking the respondents to evaluate the level of policy support that they received during overseas expansion on a 7-point scale in terms of (i) simplifying the approval of foreign investment, (ii) simplifying procedures for firms to demonstrate sufficient capital in foreign

currency, (iii) investment guideline by industries, (iv) the protection of firms' rights overseas, and (v) investment guideline by countries.

Interstate political relations between China and a host country was measured by Voeten et al.'s (2013) Affinity of Nations Index.[2] This index is based on countries' voting behaviours in the UNGA in 2010. States with stronger political relations tend to share more similar foreign policy positions in international affairs (Dai et al., 2013). Within the index, the affinity between any two countries at any point in time falls in the range of -1 to 1. In which, -1 indicates that two countries' voting behaviors at the UNGA are completely dissimilar and 1 suggests that they are identical (Gartzke, 2006). Hence, the higher values indicate a stronger political relationship between two countries.

Interstate economic relations was operationalized using the number of BITs and DTTs enforced between China and a host country. Data on BITs were drawn from the UNCTAD database.[3] DTT data were extracted from the China Commerce Yearbook 2011.

Control variables. At country level, we controlled for host-country risk using the World Governance Indicators (WGI) 2010.[4] To allow for a comprehensive interpretation, we rescaled the index by using 2.5 minus the original scores for all observations so that 0 means best governance quality while 5 indicates the most risky environment. Furthermore, we used the marketization index published by China's National Economic Research Institute to capture variations in regional marketization (Fan et al., 2010). We also included a dummy variable to capture whether a multilateral investment agreement is assigned between China and host countries (1 = Yes, 0 otherwise). The data were drawn from UNCTAD database.[5] Moreover, the impact of home-country government support may vary between developed and developing countries (Kolstad and Wiig, 2012). We accounted for such a difference using a dummy variable (1 = OECD countries, 0 otherwise). Lastly, we used the natural logarithm of air miles between Beijing and a foreign capital city to control for geographic distance between China and a host country. The data were drawn from the French Research Centre in International Economics database (CEPII).[6]

At industry level, we controlled for host-country industry growth using the annual growth rates for value added in respective industries in 2010.[7] The data were collected from the database of World Development Indicators. Moreover, we accounted for differences in industry competitiveness between firms' home and host countries using three items from the survey. The respondents were asked to compare: (i) difficulties in obtaining raw materials, (ii) difficulties in obtaining technology for innovation, and (iii) completion of upstream and downstream industries, between China and the host country.

At firm level, we controlled for firm size as the natural logarithm value of total employees, and host-country experience by the number of years that a firm has operated in a host country (Wu and Lin, 2010). We also included dummy variables to control for a firm's ownership status (1=SOE, 0 otherwise) and the adoption of risk assessment strategies (1=Yes, 0 otherwise)..

4. Results

4.1 Common method bias

As some variables were drawn from the same survey respondents, this may entail a threat of common method bias (CMB) (Podsakoff and Organ, 1986). We adopted several practices to address this concern. First, we tested for this potential issue by performing the Harman single-factor test (Podsakoff et al., 2003). The result indicates that the single factor model demonstrated a poor fit to the data, which only accounted for 10% of the variance.

Second, we adopted a Confirmatory Factor Analysis (CFA) approach to identify potential CMB. Following Guo et al. (2014), we compared the fitting indices between a model loading all items onto a common latent factor and a model loading all items onto their theoretical constructs. Pairwise tests for all factors show that a three-factor model fits our data better in all cases.

Third, as several of our hypotheses concern the interaction effects between home-government support and interstate relational factors, it is unlikely that CMB would be included in our results. It has been suggested that the complex data relationship shown by the predicted interaction effect is not explained by CMB because the respondents are not able to anticipate the

researchers' interaction hypotheses so as to provide biased answers (Ma et al., 2011). Additionally, some of our variables, such as interstate economic relations and firm size, are objective which effectively reduces the amount of spurious correlations among the variables in our model (Brouthers et al., 2013). These practices together with a questionnaire completion guide, which guaranteed confidentiality of the responses, are likely to enhance the accuracy of our responses (Danis et al., 2010). Therefore, we are reasonably confident that CMB is unlikely to be a major concern in our study.

4.2 Constructs' reliability and validity

Descriptive statistics and variable correlations are presented in Table 2, and variance inflation factors are well below the acceptable level of 10 (Neter et al., 1985), indicating no multicollinearity issue. We assessed the reliability of our multi-item constructs by examining their internal consistency with Cronbach alpha. The internal consistency values for all constructs were above 0.70. We conducted CFA to test the convergent and discriminant validities for these multi-item constructs. Our CFA model fits the data well, with all indices meeting their respective criteria ($\chi^2(113) = 186.188$; $p<0.001$; CMIN/DF=1.65; CFI=0.97; RMSEA=0.06; NNFI=0.97) (Appendix A). The variance extracted from our constructs is greater than the threshold value of 0.50 and larger than the squared correlations between the two constructs (Hair et al., 2006) (Appendix B), providing evidence for discriminant validity.

Insert Table 2 here

4.3 Hypotheses tests and results

The results using the ordinary least squares (OLS) regression are presented in Table 3. Model 1 in Table 3 is a baseline model. Model 2 introduces the independent variables, home-country government financial support and non-financial policy support. We included the moderating variables one by one in Model 3 and Model 4. Model 5 is a full model with all the variables.

For the main variables, as the coefficient of home-country government financial support is statistically insignificant, Hypothesis 1a is not supported. By contrast, the coefficient of home-country government non-financial support is positive and statistically significant in Model 5 (β=0.56, $p<0.001$). The result lends support for Hypothesis 1b that Chinese MNEs' overseas subsidiary performance is positively related to the level of home-country government non-financial support.

For the interaction effect between home-government financial support and interstate political relations, the coefficients of their interaction terms in Model 3 and Model 5 are statistically insignificant. Hence, Hypothesis 2a is not supported. Conversely, we find support for Hypothesis 2b. The coefficients of the interaction effect between home-country government non-financial support and interstate political relations are positive and statistically significant in Model 3 (β=0.13, $p<0.05$) and Model 5 (β=0.14, $p<0.05$). This suggests that favourable interstate political relations strengthen the positive impact of home-country government non-financial support on subsidiary performance.

For the joint effect of home-government financial support and interstate economic relations, the coefficients of their interaction terms are positive but statistically insignificant in Models 4 and 5, which do not support Hypothesis 3a. By contrast, the coefficients of the interaction terms between interstate economic relations and home-government non-financial support are negative and statistically significant in Model 4 (β=-0.21, $p<0.05$) and Model 5 (β=-0.22, $p<0.01$). This suggests a substitutive effect between home-country government non-financial policy support and interstate economic relations. Thus, Hypothesis 3b is supported.

Insert Table 3 here

We follow Brambor et al. (2006) and further examine the marginal effects of the independent variables at different values of moderators through plotting graphic displays. Figure 1 depicts the marginal effect of home-country government financial support on Chinese MNEs' overseas performance when interstate political relations between China and the host country become stronger. As shown in Figure 2, there is an upward slope for the marginal effect of home-

country government non-financial support on Chinese firms' overseas performance when interstate political relations between China and the host country reach a higher score. This indicates that when a better interstate political relation presents, the positive impact of home-government policy support on Chinese MNEs' subsidiary performance becomes stronger. Figure 3 presents the marginal effect of home-country government financial support on Chinese MNEs' overseas performance given the degree of interstate economic relations between China and the host country. Figure 4 shows that the marginal effect of home-country government non-financial support on Chinese firms' overseas performance diminishes when both BIT and DTT have been implemented between China and the host country. The downward slope indicates that there is a substitutive effect between non-financial support and the strength of interstate economic relations. Specifically, when interstate economic relations are equal to 2, the marginal effect of non-financial support on subsidiary performance becomes insignificant. This suggests that as the degree of interstate economic relations becomes stronger, the impact of home-country government non-financial support on firms' performance becomes negligible. Additionally, we have conducted robustness checks and detailed information is included in Appendix C.

Insert Figures 1, 2, 3 and 4 here.

5. Discussion and conclusion

5.1 Main findings and contributions

This study examines the impact of home-country government financial and non-financial support on Chinese firms' overseas performance and the extent to which their effects are moderated by interstate political and economic relations. We have obtained several interesting findings. First, our empirical evidence shows that supportive home-government policies in non-financial domains enhance EMNEs' overseas subsidiary performance, whereas financial support does not have such an impact. This suggests that non-financial policy measures, such as information support, the

streamlining of administrative processes and increasing diplomatic protection can directly enhance Chinese firms' post-entry performance through increased efficiency and reduced operational costs. Unlike developed country MNEs, EMNEs rely substantially on government support to build their competitive advantages (Hong et al., 2015). This finding complements previous research (e.g. Lu, et al., 2014) by demonstrating that home-country government non-financial support not only motivates firms to undertake OFDI but also generates a performance-enhancing effect. Such support in the form of information provision and institutional protection for overseas business is vital for newcomer EMNEs. It also implies that EMNEs face challenges in host countries due to a lack of foreign market knowledge. Home-country government non-financial support helps address their weakness in post-entry operations, thus improving firm performance.

We did not find empirical evidence that home-country financial support boosts Chinese MNEs' post-entry performance. A number of reasons may explain this non-significant effect. First, the finding may suggest home-country government support in the form of easy access to financial resources may not be directly translated into firms' competitive advantage (Buckley et al., 2018). Additionally, our result may indicate that home-country government financial support alone has a limited impact on EMNEs' post-entry performance, which may be largely driven by EMNEs' competitive advantages and the industry competition of host countries. Our finding implies that government financial support is powerful in facilitating foreign entry, but firms may face challenges in utilizing such support to improve post-entry performance in host countries.

Second, our study pays particular attention to the role of interstate political relations in EMNEs' cross-border operations and finds empirical support that interstate political relations serve as a promoting device to augment the positive links between home-country government non-financial support and EMNEs' international success. The findings reflect the fact that firms are embedded in both home and host countries, and thus their international activities are influenced by interactions between governments at interstate levels (Child and Marinova, 2014). Existing studies predominantly stress the relevance of within-country institutions for MNEs' operational

effectiveness (Makino and Tsang, 2011). However, government involvement in firms' cross-border operations can raise political concerns (Globerman and Shapiro, 2009). This implies that EMNEs can suffer from the liability of country of origin. This is particularly true with Chinese firms, which are often considered to carry political missions with their OFDI (Cui and Jiang, 2012). Therefore, investing in countries with good political relations with their home country can help firms minimise negative images associated with their national identity, as home-country government support may be seen as less intrusive or even represent a positive signal in these countries. Furthermore, the Chinese government and embassies are more likely to be influential in countries with close interstate political relations. As such, they can provide support and protection for their firms when needed. Thus, strong interstate political relations serve as an institutional device which helps EMNEs embed in the local institutional environment. Increased local embeddedness enables these firms to gain public support and access local knowledge, thus enhancing subsidiary performance. However, we did not find support for the interaction effect between home-government financial support and interstate political relations. This non-significant result may indicate that post-entry performance is largely driven by firm-level competitiveness and industry conditions rather than country-level factors (Hoskisson et al., 2013). While strong interstate political relations allow Chinese firms to use their financial resources to purchase valuable assets in the host country, it may take time to reconfigure firms' existing and acquired resources to enhance performance (Peng, 2012).

Third, our findings suggest that interstate economic treaties and home-country government non-financial support substitute for each other in affecting Chinese MNEs' overseas success. Interstate economic treaties serve as an alternative source of country-specific information, which can be more beneficial than the guidelines issued by the home-country government. Therefore, strong interstate economic relations can replace the promotional measures of the home-country government in helping firms achieve overseas success. By contrast, our finding suggests that the interaction between home-country financial support and interstate economic relations is

insignificant. One possibility is that as relatively new players in the international marketplace, Chinese MNEs may lack the ability to strategically capitalize on the potential benefits of interstate economic treaties, such as tax reductions and tariff exemptions.

Our study contributes to the existing literature on EMNEs in three main ways. First, this study goes beyond examination of what motivates EMNEs to undertake OFDI by focusing on their post-entry performance. While research has shown the influence of supportive home-government policies in encouraging the international expansion of EMNEs (Hoskisson et al., 2013), little is known about their impact upon these firms' post-entry performance. Our study fills this research gap by showing that home-country government non-financial support can serve as a means of improving EMNEs' overseas performance. We move beyond generic home-country government support by differentiating between financial and non-financial policy measures. Thus, the findings contribute to a better understanding of the factors affecting EMNEs' overseas success. As EMNEs are in the early stage of internationalization, knowledge provision and institutional protection are more important elements than financial support in shaping their post-entry performance.

Second, this study broadens research on EMNEs by combining insights from institutional embeddedness and the GPE perspective. Our integrative framework offers a broader perspective for understanding the sources of a firm's competitive advantage and captures the impact of the interconnection between domestic institutions and interstate relations. Thus, this approach enables us to expand the theoretical boundary of the institutional perspective to interstate contexts. Firms operating across borders face multiple institutional pressures that arise from home and host countries, as well as their interplay in the international realm (Meyer and Peng, 2016). Extant research drawing on the institution-based view has focused on the impact of within-country contextual forces by assuming such contextual factors are internationally immobile (Demirbag et al., 2010). We address this omission by bringing in the GPE perspective which emphasizes that countries are embedded in the broader international context, and thus interstate relations can augment the effectiveness of domestic policy (Jandhyala and Weiner, 2014). We propose, and find,

empirical evidence that the impact of the home-country government on firms' overseas activities can be channeled through the interstate relations. By bridging the institution-based view with the GPE perspective, this study goes beyond identifying the direct effect of the domestic institutional environment by highlighting its interface with interstate relational factors in explaining EMNEs' post-entry performance.

Finally, our study complements existing research by showing that EMNEs' international success not only directly links to home-country government support, but is also indirectly related to the strength of interstate political and economic relations. The findings reveal different mechanisms through which home-country government non-financial policy support interacts with interstate political and economic relations to influence EMNEs' post-entry performance. While there is a complementary effect between interstate political relations and home-government non-financial support, interstate economic relations create an alternative institutional structure which helps to smooth cross-border business operations that substitute for home-government supportive policies. Thus, our study systematically delineates interstate political and economic relations as boundary conditions in shaping EMNEs' international success. The findings offer a more nuanced understanding of the role of interstate political and economic relations and shed new light on existing research by highlighting the importance of considering the distinct effects of interstate relations on EMNEs' post-entry performance.

5.2 Implications

Our study has a number of implications for practitioners and policymakers. For managers, first, our findings show that Chinese MNEs' overseas performance is boosted by home-government non-financial policy support but not financial support. This suggests that Chinese firms should leverage non-financial supportive measures to enhance their overseas performance while reducing reliance on home-government cheap finance. Second, our findings indicate that the impact of non-financial policy support is moderated by interstate political and economic relations. This implies that Chinese firms should utilize various non-financial schemes, such as diplomatic and information support,

when operating in countries that have good political relations with China. Additionally, they should develop a better understanding of the interstate economic treaties signed between China and other countries as these may facilitate economic exchanges with partner countries and help Chinese firms to obtain specific information regarding the host-country investment and taxation policies.

For policymakers, our findings suggest that EMNEs' home-country governments may consider offering non-financial policy support such as the streamlining of administrative processes and personnel training to assist their firms to compete globally. Moreover, active engagement at interstate governmental levels is desirable as it can be used as institutional leverage to extend the influence of domestic policy support in helping EMNEs' to achieve international success. Establishing favorable political relations with host countries may augment the effectiveness of non-financial policy support and help to boost the confidence of firms that operate in overseas markets. Additionally, the enforcement of BITs and DTTs with clauses dealing with investment and tax issues can provide EMNEs with alternative channels of information which enhance their commercial orientation.

5.3 Limitations

This study has several limitations which point to opportunities for future research. First, our dependent variable, subsidiary performance, was captured using managerial perceptual measures which may introduce the possibility of subjectivity. Given the multidimensional characteristics of business performance, future research should operationalise the construct with objective financial and operational measures. Second, due to the limitation of our data, we can only take a crude account of interstate relations and state ownership. More fine-grained measurements of these constructs, specifically taking into account both interstate co-operation and conflict, and the percentage of state-owned shares in a business, are certainly needed in future research. Finally, we used survey data to capture the actual level of support that firms received from their home-country government. Future research may consider looking at EMNEs' headquarters and subsidiary links, and how this relationship influences the effect of home-country government support.

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Table 1
Industrial and regional distribution of the sample firms, in comparison with the population

	Industrial distribution of investing firms			Regional distribution of FDI location					
	Agriculture	Mainstream Industries	Services	Asia	Europe	Africa	North America	Latin America	Oceania
Sample (n=148)									
Number	9	92	47	61	24	24	21	9	9
Percentage (%)	6.1	62.1	31.8	41.2	16.2	16.2	14.2	6.1	6.1
Population (N=17,951)									
Number	760	7,819	9,601	9,627	2,421	2,054	2,458	829	562
Percentage (%)	4.2	54.2	53.5	53.6	13.5	11.5	13.7	4.6	3.1

Source: Base population data were compiled from 2011 Statistical Bulletin of China's Outward Foreign Direct Investment

Table 2
Correlation matrix

	Mean	SD	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
1. Performance	3.91	0.81															
2. Home-government financial support	3.23	0.85	0.14														
3. Home-government non-financial policy support	5.05	1.20	0.42**	0.185*													
4. Interstate political relations	0.61	0.56	0.09	-0.02	-0.12												
5. Interstate economic relations	1.56	0.61	-0.06	-0.09	-0.02	0.19*											
6. Degree of marketization	9.36	1.40	0.15	0.34**	0.04	-0.01	-0.10										
7. Ownership	0.26	0.43	-0.11	-0.16	-0.05	0.05	0.07	-0.16									
8. Local experience	2.86	2.46	0.10	-0.02	-0.08	0.04	0.12	-0.12	-0.02								
9. Risk assessment	0.86	0.35	0.26**	0.16	0.21**	0.05	0.02	-0.03	-0.03	0.14							
10. Firm size	6.29	2.18	0.15	0.03	0.12	0.13	0.15	0.16*	0.28**	0.04	0.06						
11. Industry competitiveness between home and host countries	3.19	0.95	0.13	-0.07	0.25**	-0.23	0.28**	-0.07	-0.07	0.00	0.12	0.03					
12. Host-country risk	2.07	1.17	0.09	-0.10	-0.05	0.00	-0.49	-0.09	-0.10	-0.13	-0.05	-0.25	-0.26				
13. Multilateral investment agreement	0.31	0.46	-0.10	0.09	-0.15	0.21**	0.29**	0.15	-0.06	-0.01	0.11	0.16	0.11	-0.25			
14. Geographical distance	8.27	0.69	0.03	-0.03	-0.10	-0.12	-0.04	0.00	0.10	-0.04	0.14	-0.13	0.01	0.06	-0.03		
15. Host-country industrial growth	0.06	0.12	-0.01	0.08	0.03	-0.13	0.04	0.16	-0.18	0.07	0.04	-0.01	0.00	-0.02	0.13	-0.03	
16. Developed vs. Developing country dummy	0.38	0.48	0.05	-0.01	0.04	0.12	0.08	-0.15	0.15	0.01	0.04	0.14	-0.09	-0.06	0.05	0.05	-0.09

Sample = 148

*P<0.05; **P<0.01;

Table 3
Results of regression analysis

	Model 1	Model 2	Model 3	Model 4	Model 5
Main Variable					
Home-country government financial support		0.02	0.03	-0.11	-0.11
		(0.07)	(0.07)	(0.14)	(0.14)
Home-country government non-financial policy support		0.24***	0.21***	0.58***	0.56***
		(0.05)	(0.05)	(0.14)	(0.14)
Moderators					
Interstate political relations		0.13*	-0.58	0.15*	-0.57
		(0.16)	(0.36)	(0.06)	(0.35)
Interstate economic relations		-0.02	-0.01	0.82Ł	0.82Ł
		(0.12)	(0.12)	(0.48)	(0.47)
Interactions					
Home-country government financial support * Interstate political relations			0.01		-0.01
			(0.12)		(0.05)
Home-country government non-financial policy support * Interstate political relations			0.13*		0.14*
			(0.06)		(0.06)
Home-country government financial support * Interstate economic relations				0.07	0.08
				(0.10)	(0.10)
Home-country government non-financial policy support * Interstate economic relations				-0.21*	-0.22**
				(0.08)	(0.08)
Control Variables					
Degree of marketization	0.10*	0.09*	0.09*	0.10*	0.09*
	(0.04)	(0.04)	(0.04)	(0.04)	(0.04)
Ownership	-0.24	-0.19	-0.20	-0.16	-0.16
	(0.15)	(0.14)	(0.14)	(0.14)	(0.14)
Local experience	0.03	0.04Ł	0.04Ł	0.04Ł	0.04Ł
	(0.02)	(0.02)	(0.02)	(0.02)	(0.02)
Risk assessment	0.55**	0.32Ł	0.29	0.38*	0.35*
	(0.18)	(0.18)	(0.18)	(0.17)	(0.17)
Firm size	0.07*	0.05Ł	0.05Ł	0.05Ł	0.05Ł
	(0.03)	(0.03)	(0.03)	(0.03)	(0.03)
Industry competitiveness in comparison between home and host countries	0.14*	0.11	0.11	0.13Ł	0.13Ł
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)
Host-country risk	0.14*	0.13Ł	0.16*	0.13Ł	0.15*
	(0.07)	(0.07)	(0.07)	(0.07)	(0.07)

Multilateral investment agreement	-0.28Ł	-0.19	-0.17	-0.26Ł	-0.24Ł
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Geographical distance	0.02	0.09	0.08	0.07	0.06
	(0.09)	(0.08)	(0.08)	(0.08)	(0.08)
Host-country industry growth	-0.28	-0.20	-0.32	-0.01	-0.14
	(0.53)	(0.51)	(0.51)	(0.51)	(0.51)
Developed vs. Developing country dummy	0.15	0.09	0.10	0.11	0.12
	(0.13)	(0.12)	(0.12)	(0.12)	(0.12)
Observations (N)	148	148	148	148	148
R-square	0.14	0.25	0.26	0.27	0.29

$^{+}$P < 0.10; *P < 0.05; **P < 0.01; ***P<0.001

Figure 1. The moderating effect of interstate political relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-country government financial support.

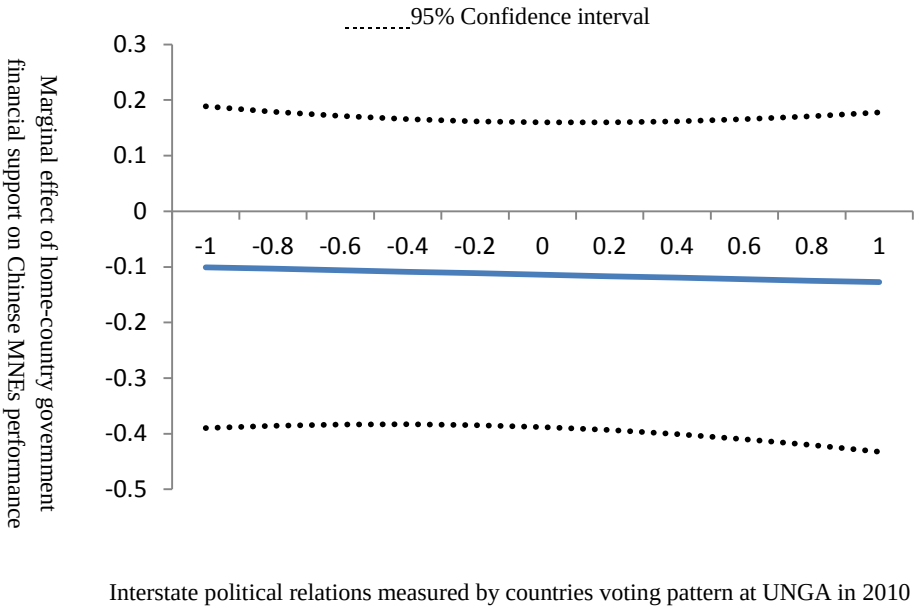


Figure 2. The moderating effect of interstate political relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-country government non-financial policy support.

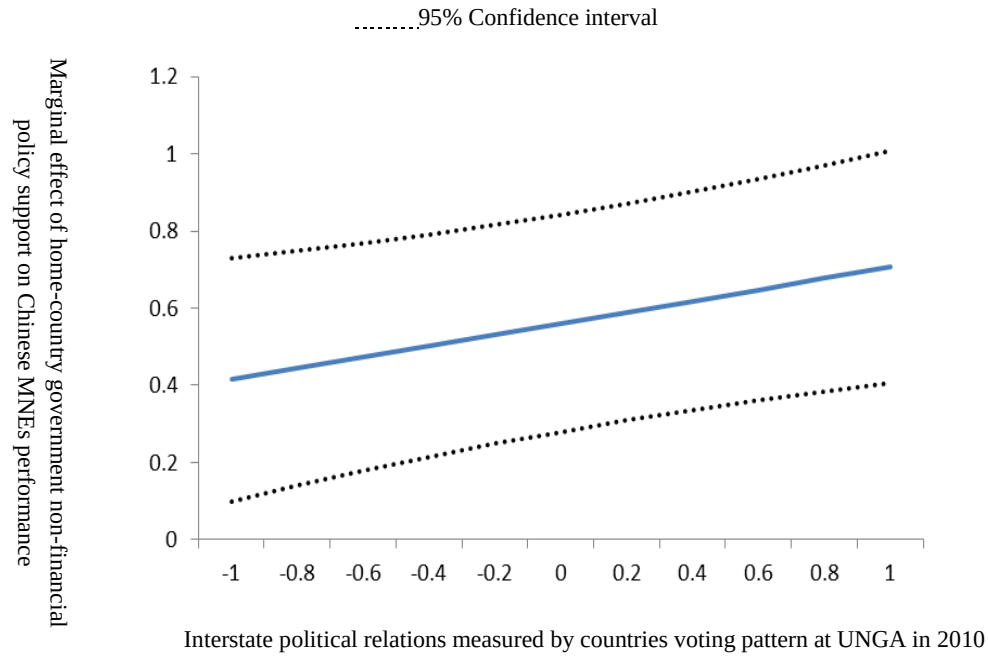


Figure 3. The moderating effect of interstate economic relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-country government financial support.

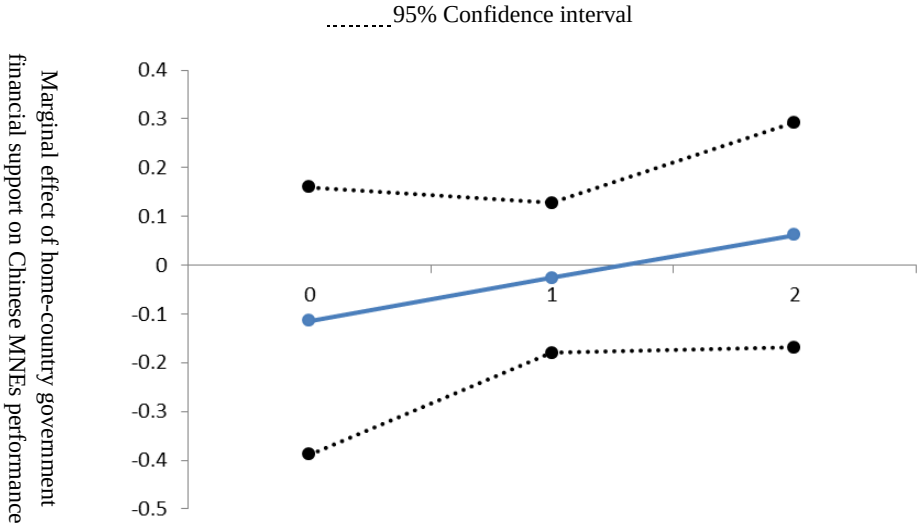
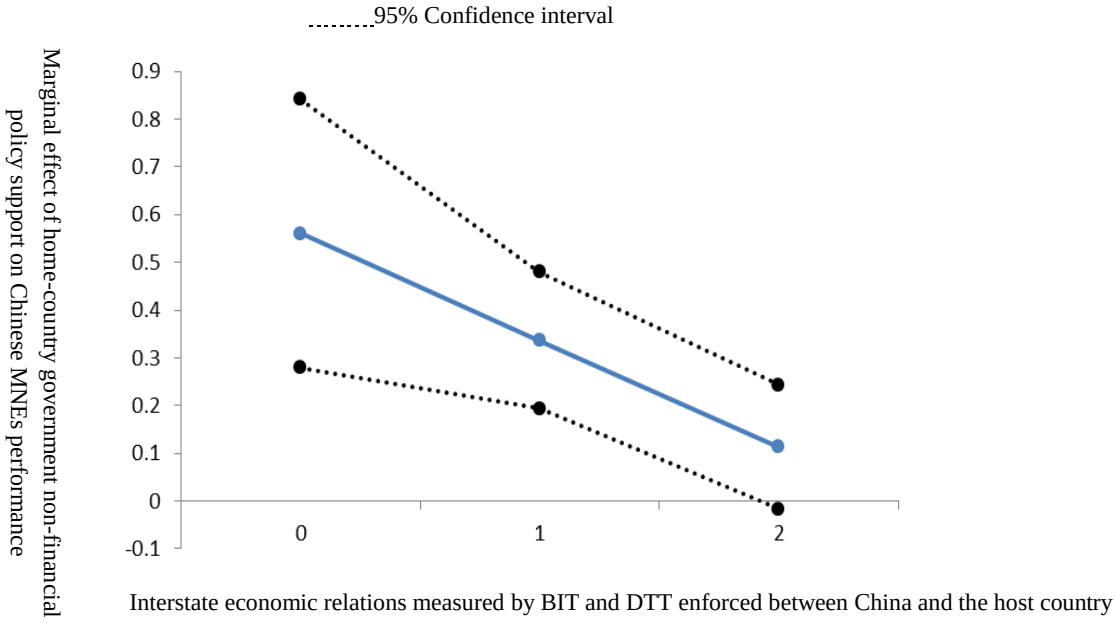


Figure 4. The moderating effect of interstate economic relations on the relationship between Chinese MNEs' overseas subsidiary performance and home-country government non-financial policy support.



Notes

[1] The sample firms are located in Beijing, Shanghai, Tianjin, Chongqing, Shangdong, Guangdong, Jiangsu, Zhejiang, Fujian, Henan, Hubei, Hunan, Hebei, Heilongjiang, Yunnan and Shaanxi.

[2] The Affinity of Nations Index was first developed by Gartzke (2006) and updated by Voeten, Strezhnev and Bailey from 2008 onwards: http://pages.ucsd.edu/~egartzke/htmlpages/data.html

[3] BIT data are available at http://investmentpolicyhub.unctad.org/IIA/CountryBits/42#iiaInnerMenu Accessed 10 August 2016

[4] The WGI scores are available at: http://info.worldbank.org/governance/wgi/index.aspx#reports Accessed 10 August 2016

[5] Multilateral investment agreement data are available at http://investmentpolicyhub.unctad.org/IIA/CountryOtherIias/42#iiaInnerMenu Accessed 10 August 2016

[6] CEPII database are available at http://www.cepii.fr/CEPII/en/bdd_modele/download.asp?id=6 Accessed 8 April 2018.

[7] Value added is the net output of a sector after adding up all outputs and subtracting intermediate inputs. It is calculated without making deductions for depreciation of fabricated assets or depletion and degradation of natural resources.

Appendix A.

Table A.1 Measurement model and CFA results

Constructs	*Operational Measures of Construct*	*Factor Loadings*	*t-value*
Chinese firms' overseas performance			
(Cronbach alpha=0.880)	Satisfaction with sales growth	0.86	11.12
	Satisfaction with local market share growth	0.88	11.21
	Satisfaction with sales margin growth	0.79	Fixed
Home-country government policy support			
(Cronbach alpha=0.943)	Simplifying procedures for demonstrating firms have sufficient capital in foreign currency	0.81	14.05
	Simplifying the approval of foreign investment	0.80	13.56
	Investment guidelines by industries	0.92	19.13
	Protection of firms' rights overseas	0.93	19.65
	Investment guidelines by countries	0.92	Fixed
Host-country risk			
(Cronbach alpha= 0.975)	Voice and accountability	0.82	16.54
	Political instability	0.85	18.57
	Government effectiveness	0.98	38.48
	Regulatory quality	0.98	37.86
	Rule of law	0.99	45.38
	Control of corruption	0.97	Fixed
Differences in industry competitiveness between home and host countries			
(Cronbach alpha=0.766)	Difficulties of obtaining raw materials	0.77	6.77
	Difficulties of obtaining technology for innovation	0.71	6.68
	Completion of upstream and downstream industries	0.70	Fixed

Appendix B.

Table B.1 Discriminant validity

	Differences in industry competitiveness between home and host countries	Host-country risk	Performance	Home-country government policy support
Differences in industry competitiveness between home and host countries	(0.73)			
Host-country risk	0.31	(0.94)		
Performance	0.11	-0.12	(0.85)	
Home-country government policy support	0.22	0.11	0.39	(0.88)

Appendix C. Robustness checks

To deal with the issue of potential selection bias, we adopted Heckman's (1976) two-steps estimation to test the robustness of our results. In the first stage, a probit model is used to estimate the probability of Chinese MNEs entering countries with high political risks. We generated the inverse Mills ratio (IMR) by regressing firms' characteristics and home-country government financial and policy supports on host-country risk. Due to the absence of classification on governance quality under the WGI index, we used China's governance score in 2010 as a benchmark (WGI, 2010). Under the WGI's six dimensions in 2010, China scored -1.63 for voice and accountability, -0.66 for political stability, 0.10 for government effectiveness, -0.22 for regulatory quality, -0.33 for rule of law, and -0.60 for control of corruption. We first take their mean value of -0.55. To allow comprehensive interpretation, we use 2.5 minus China's WGI score in 2010, i.e. 2.5-(-0.55) =3.05. For our analysis, countries that scored equal or higher than 3.05 indicate greater risk.

In the second stage, we estimated overseas performance by including IMR as a regressor that captures sample selection bias. As reported in Table 3A, the IMR coefficient does not show any statistical significance in Models 1-5, which indicates the absence of such bias. The coefficient of our independent variable, home-country government non-financial policy support, and its interactions with interstate political and economic relations, remain similar to those reported in the initial OLS regression.

Table C.1 Results of robustness tests

	Model 1	Model 2	Model 3	Model 4	Model 5
Main Variable					
Home-country government financial support		0.11	0.18	-0.01	0.04
		(0.31)	(0.31)	(0.33)	(0.33)
Home-country government non-financial policy support		0.23***	0.19**	0.57***	0.54***
		(0.05)	(0.06)	(0.14)	(0.14)
Moderators					
Interstate political relations		0.13*	-0.60Ł	0.15*	-0.59Ł
		(0.06)	(0.36)	(0.06)	(0.35)
Interstate economic relations		-0.02	-0.01	0.82Ł	0.82Ł
		(0.12)	(0.12)	(0.48)	(0.47)
Interactions					
Home-country government financial support * Interstate political relations			-0.01		-0.01
			(0.06)		(0.06)
Home-country government non-financial policy support * Interstate political relations			0.14*		0.14*
			(0.06)		(0.06)
Home-country government financial support * Interstate economic relations				0.07	0.08
				(0.10)	(0.10)
Home-country government non-financial policy support * Interstate economic relations				-0.21*	-0.22**
				(0.08)	(0.08)
Control Variables					
Inverse Mills Ratio	0.66	-1.63	-2.72	-1.69	-2.76
	(1.40)	(5.40)	(5.37)	(5.32)	(5.28)
Degree of marketization	0.12*	0.05	0.02	0.05	0.02
	(0.05)	(0.14)	(0.14)	(0.14)	(0.14)
Ownership	-0.28	-0.07	0.00	-0.03	0.03
	(0.18)	(0.42)	(0.42)	(0.41)	(0.41)
Local experience	0.01	0.07	0.09	0.08	0.10
	(0.03)	(0.11)	(0.11)	(0.11)	(0.11)
Risk assessment	0.54**	0.32Ł	0.29	0.37*	0.34Ł
	(0.18)	(0.18)	(0.18)	(0.18)	(0.17)
Firm size	0.03	0.15	0.22	0.16	0.23
	(0.09)	(0.34)	(0.34)	(0.34)	(0.34)
Differences in industry competitiveness between home and host countries	0.01	0.44	0.66	0.47	0.69
	(0.28)	(1.09)	(1.09)	(1.08)	(1.07)
Host-country risk	0.14*	0.13Ł	0.16*	0.13Ł	0.15*
	(0.06)	(0.07)	(0.07)	(0.07)	(0.07)

Multilateral investment agreement	-0.28ł	-0.19	-0.17	-0.26ł	-0.24ł
	(0.14)	(0.14)	(0.14)	(0.14)	(0.14)
Geographical distance	0.02	0.09	0.09	0.07	0.06
	(0.09)	(0.08)	(0.08)	(0.08)	(0.08)
Host-country industry growth	-0.89	1.31	2.19	1.56	2.42
	(1.41)	(5.05)	(5.02)	(4.97)	(4.93)
Developed vs. Developing country dummy	0.15	0.08	0.09	0.11	0.12
	(0.13)	(0.12)	(0.12)	(0.12)	(0.12)
Observations (N)	148	148	148	148	148
R-square	0.15	0.24	0.26	0.27	0.29

P < 0.10; *P < 0.05; **P < 0.01; ***P<0.001